HOUSING MARKET OUTLOOK

Metro Victoria

Canada Mortgage and Housing Corporation

SPRING 2006

2007 at a Glance

- *Victoria's housing markets robust*
- *Resale market sales to dip, prices continue rising*
- *New homebuilding strong - both singles and multis*
- *Rental market vacancy rate low but edging up*
- *New home market prices increasing*
- *More new lots in West Shore markets, higher prices*

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Sales edge down through 2007; prices still moving up

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RESALE MARKET

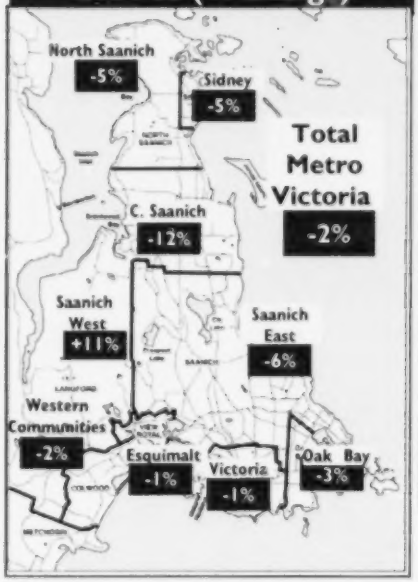
Price gains to ease

MLS®[1] average prices are expected to rise again in 2007, but not as much as in 2005 or 2006. In 2007, prices are forecast to average $530,000 for houses, $382,000 for townhouses and $290,000 for condo apartments.

The number of **2006-07 Victoria annual home sales will edge down from 2005 levels**. Last year's rise in condo apartment transactions boosted total sales to the highest level in over a decade.

continued on page 2...

House Sales by Sub-market, 2004-05 (% change)



[1]Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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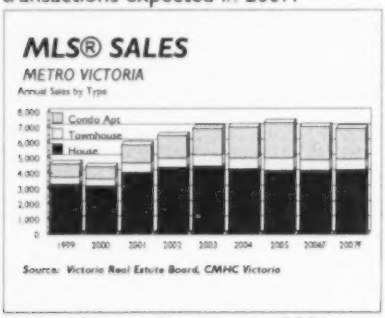
Resale Market ...continued from page 1

Single family home sales are forecast to remain close to 4,200 in 2006 and 2007, as slightly fewer buyers are drawn to this market due to high house prices. Condo **apartment and townhouse sales reflect strong demand** for affordable homes, with 1,990 apartment and 725 townhouse transactions expected in 2007.



Metro Victoria first quarter 2006 **single family home sales are 2% behind** last year's levels. **Saanich Peninsula** (Central Saanich, North Saanich, Sidney) **and West Shore** (Langford, View Royal, Sooke, Colwood, Highlands and Metchosin) are bucking the trend to fewer house sales, as buyers drive sales higher in these less expensive markets. In 2005, **Saanich West** was the only market to see an uptrend in sales, also driven by buyer attention to price (see map on page 1 for 2005 details).

Sales in several **West Shore** markets are expected to outperform other Capital Region markets as buyers are attracted to the area's growing number of recreational, retail, medical, educational and cultural amenities, as well as its lower house prices.

Strong demand will push average single family house prices ahead 10.2% in 2006 and a further 4.1% in 2007. **Rising buyer activity** in all market segments has already driven prices close to 60% higher over the past three years.

Prices are continuing the uptrend first noted in early 2001 when demand for homes began to escalate. In first quarter 2006, a spike in the proportion of sales of homes priced over $1 million pushed the overall average price to a record high.

At March 2006, single family house listings were up 35% from March 2005's level, easing the strong upward price pressure. Strong employment growth, rising migration and low interest rates are keeping market demand buoyant and the market continues to favour sellers.

March 2006's sales-to-active listings ratio was 45%, well below last March's 71%. Year-to-date, the average sale price is up 22%. These figures indicate the single family **house market currently favours sellers**, but rising listings foreshadow a return to balanced conditions in the second half of 2006.

Condo Markets Strong

Metro Victoria's **townhouse and apartment condominium sales will remain strong**, edging down in 2006 and 2007 from last year's record levels. These markets also favour sellers, and prices are escalating.

Average townhouse **prices are forecast to exceed $380,000** next year. This market has favoured sellers since mid 2002. During first quarter 2006, townhouse sales slipped 5%, active listings grew by one-third, and average prices climbed 11%. A shrinking number of listings and moderate demand is **increasing upward pressure on prices**.

Apartment condo prices jumped 44% in the last two years, and will climb to $290,000 in 2007, due in part to more sales of newer suites. The following market indicators confirmed a **sellers' market for apartment condos** during first quarter 2006: sales dipped 23% from last year's exceptional levels, active listings rose 34% and average prices rose 22%.

Sidney Houses Lowest Priced In Region

Sidney took over from Esquimalt as the **least expensive house market** in Metro Victoria during the first quarter of 2006, with a median house price of $369,500.

The West Shore was the next most affordable market, at $379,900. **Saanich West** and **Esquimalt** also posted median prices under $400,000.

Oak Bay, North Saanich and **Saanich East** continued to lead the **trade-up market**, with median prices over $500,000. **Victoria City** and **Central Saanich** both saw medians rise above $415,000. ❖

MLS® House Sales by Market

1st Quarter 2006, Metro Victoria

	Median House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	**$418,000**	**36**	**1,869**
Oak Bay	**$629,900**	**31**	**2,308**
Esquimalt	**$389,450**	**35**	**1,983**
Saanich East	**$502,450**	**39**	**2,385**
Saanich West	**$393,250**	**46**	**1,935**
Central Saanich	**$464,960**	**37**	**2,417**
North Saanich	**$569,250**	**45**	**2,428**
Sidney	**$369,500**	**52**	**1,695**
West Shore	**$379,900**	**49**	**2,087**

Source: Victoria Real Estate Board, CMHC Victoria

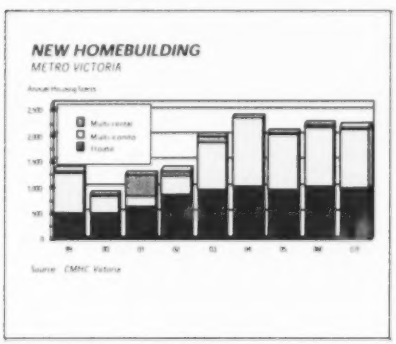
NEW HOME MARKET

Homebuilding Strong

New homebuilding **will exceed 2,200 new home starts in 2006 and is expected to edge down slightly in 2007**. Single detached house and apartment condo construction will continue to lead Victoria's new home markets, as they have since 2001 when rental construction surged ahead briefly.

Move-up, move-down and second home purchasers will remain major players in the new home market through 2007 as equity growth in their current homes improves with the strong resale market. **Investors account for the second major buyer segment**, attracted by rising real estate prices and strong rental demand. **First-time buyers will be less active** than in the past two years, due to rising interest rates and higher home prices.

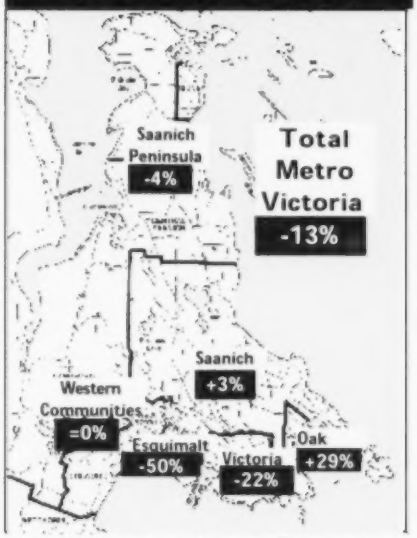
CMHC forecasts **2,185 new home starts for Metro Victoria during 2007 and 2,220 in 2006**. The Capital Region's rising levels of construction are in line with B.C. homebuilding growth.



New House Growth

Single-detached house starts are forecast close to **1,000 units annually in 2006-07** as strong buyer demand continues. During the first quarter of 2006, single detached housebuilding is 11% ahead of last year's pace. Demand for new houses continues to be driven by **strong resale market sales and prices, consumer confidence approaching the highest level in two decades, solid employment growth** and **low interest rates**.

New Housing Starts, 2004-05 (% change)



The **new house market will remain balanced** as supply keeps pace with demand through 2007. New home **inventories will edge up** as spec building (non-custom houses) expands. However, most new houses are presold before finishing, which will keep the market in balance. **High lot costs, growing development fees** and **escalating insurance, skilled labour and building supply costs** continue to challenge homebuilders.

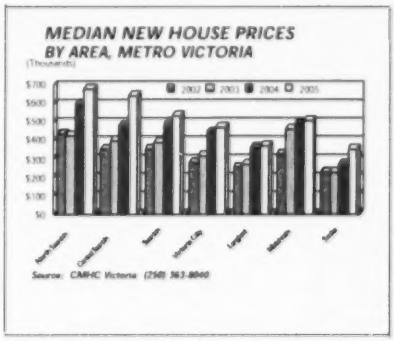
West Shore markets will dominate the Metro Victoria new house market this year, approaching a **three-quarter share of the region's new houses**. West Shore market share is continuing a long-term growth trend, after taking two-thirds of the 2005 total, up from 59% in 2004 and 54% in 2003. **Langford** is the strongest single municipality for Metro Victoria housebuilding, with a third of all new houses. Major subdivisions are underway in **Sooke**, **View Royal**, **Langford**, **Colwood**, and **Saanich** - several with multi-year buildouts.

New House Prices Climb

Strong demand and rising building costs are **driving new house prices up.** Median new house prices are forecast to rise 10% in 2006 and **a further 3% in 2007**.

New homebuyers will have **a wide range of new houses to choose from through 2007**. Price-sensitive buyers will find new houses on less expensive suburban or bare land strata lots. The growing market for these modest homes is **helping to keep median prices in check** despite rapidly rising construction costs.

Some subdivisions in **View Royal, Langford, Colwood** and **Sooke** are magnets for lower-priced new houses. Higher-end housebuilding tends to take place in **Saanich, North Saanich, Oak Bay** and on large properties in the **West Shore.**



Prices for new 1½ storey houses will jump again in 2006, with a forecast median of $495,000, up from $456,000 in 2005. **New two storey houses,** which account for two-thirds of the 2006 market, **will hit a median of $515,000.** One storey prices are also expected to **rise this year:** half will be priced under $370,000.

New Home Market... continued from page 3

New Townhouse Demand Strong in 2007

New townhouse starts are expected to edge up through 2007, although construction is not expected to keep pace with strong demand. Over the next two years, starts are forecast at 125-135 annually, up from 111 in 2005.

During the first quarter of 2006, **just eight townhouses got underway, less than** one-quarter of the 35 started during the same period in 2005. **Inventories of newly completed units are low**, and demand continues strong. The market is headed for an undersupply by mid 2006.

New townhouse **development continues to be held back** by **high land prices** due to a **shortage of suitably zoned sites**. Market share of **family-oriented townhouses,** containing three or more bedrooms, has stabilized at two-thirds of the market.

Median **prices are forecast to rise through 2007, with increases of 3-4% annually.** This means next year's **three bedroom townhouse** median price is forecast to reach $368,000.

New Apartment Condo Market Buoyant

New condo apartment starts are expected to **continue strong** but below 2004's level **through 2007**.

Metro Victoria inventories will remain low, with 25 new apartment condos completed and for sale at March 2006. **The market is now classified as balanced:** despite the large number of units (1,258 at March 2006) under construction, pre-sales are robust. Close to 75% of these units are pre-sold, reflecting strong market demand. Pre-sales are occuring before projects start in some cases and also while projects are under construtions.

During the first quarter of 2006, **251 apartment condos were completed and 239 sold**. Strong demand for **luxury** condos, **trendy** downtown units and **modest suburban** suites is driving sales of new units as well as presales.

The most popular price ranges **indicate distinct markets for mid-range and luxury product: $140-159,999 for one bedroom suites**, followed by **$340-359,999 for luxury product of the same size. For two bedroom units**, $200-219,999 and $580-599,999 are the most popular ranges.

Price increases are influenced by strong sales of luxury product as well as rising construction costs; prices **are forecast to trend up through 2007**.

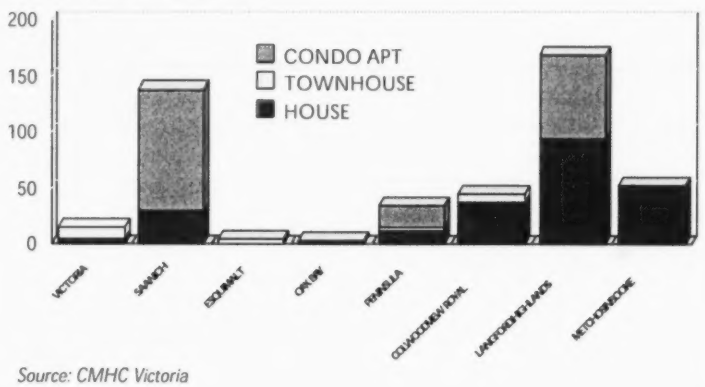
An liberal proportion of affordable or mid-range suites vs. luxury suites will keep rising median prices in check. Median new **apartment condo prices are expected to remain below $340,000** through 2007.

Demand for luxury suites will remain strong while demand for mid-range and affordable units in convenient locations will expand in 2006-07, resulting in a **diverse selection of prices, styles and locations**.

Many new condos will be built on **Victoria City redevelopment sites such as CN Lands, the Railyards, Dockside Green, the Humboldt Valley.** Others will get underway in **Sidney**, **Central Saanich, Esquimalt, Saanich** and the **West Shore. Langford** and **Colwood** are expected to dominate West Shore markets in condo building. ❖

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA

January-March 2006



Source: CMHC Victoria

Saanich, West Shore lead homebuilding during 1st Q 2006.

Land Prices, Sales Increase

Single family lot **prices are averaging 9% above last year's levels** in Metro Victoria, and more lots are selling. Lot **sales are strongest in West Shore** markets due to abundant supply.

The median price for serviced lots in the six months ended March 2006 included **$260,000** in **Saanich**, **$325,000 in North Saanich, $249,000 in Central Saanich**, **$225,000** in **Langford, $197,500 in Colwood** and **$259,000** in **Metchosin**.

Sales of Metro Victoria **multiple land sites** remain slow, as few **new townhouse and apartment projects** get underway on land which has recently sold. Land prices per unit in 2006 range from $45-75,000 for apartments to $75-119,000 for townhouses.

Rising demand began driving lot creation higher in 2003 - see chart below. **More new lots are expected to come on stream through 2007.** The largest growth of new single detached lots is forecast for the **West Shore**; other areas will see fewer lots created in 2006-07.

The ongoing **demand for new lots**, combined with rising construction costs will **help escalate new house prices through 2007**.

Housebuilding is growing in 2006-07, and lot supply constraints in some areas will **push lot prices higher**. New subdivisions in **Sooke, Langford, Colwood** and **View Royal** will improve lot supply through 2007. ❖

Vacancy rate to edge up

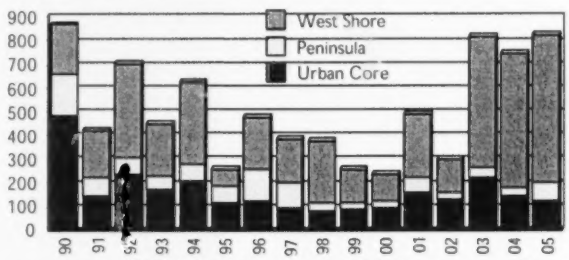
Rental apartment vacancies are forecast to rise slightly but remain low in the next 18 months. Strong rental demand will continue to be partly addressed by nontraditional rental product such as secondary suites, rental of condo units, shared accommodation. **Limited selection of traditional rental apartments** will be available in most Metro Victoria submarkets through 2007. Average rent **increases will exceed 3.5% annually,** overtaking the inflation rate. Low vacancies and rising rents will also apply to the **rental townhouse market** in 2006-07.

Only a handful of new multi-family projects will be built for rental in 2006-07. **Ongoing barriers to rental development** include high land costs, municipal DCC's and competitive average rents. Investors find these as impediments to new rental development , and choose to pursue other opportunities such as **mixed-use, niche market, condo, or commercial projects.**

HOUSE LOT CREATION

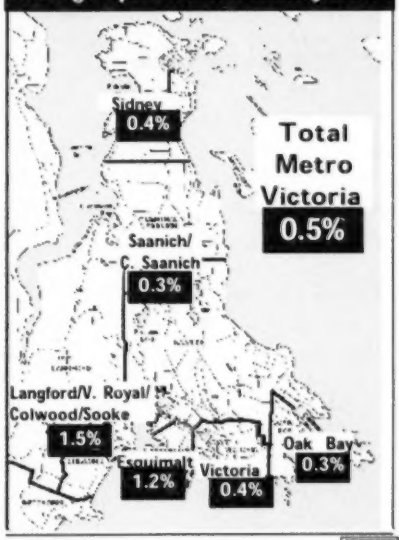
BY AREA, METRO VICTORIA

Lots Created for New Houses



Graph: CMHC Victoria Data: CRD Development Review

Victoria Rental Market, 2005
Average Apartment Vacancy Rates



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ECONOMIC OVERVIEW

Economy on a roll

Metro Victoria economic growth will **track strong BC growth patterns over the next 18 months**, with real GDP close to 3.5% for the next two years.

For 2006-07, CMHC forecasts strong provincial **economic growth, expanding employment** and **rising net migration**. BC interprovincial migration recorded a net inflow of 4,527 last year, expected to double in 2006. **International migration** will continue at a steady pace (33-35,000 annually). Migration improvements are a catalyst to housing market expansion throughout BC.

Metro Victoria population is forecast to grow 1.1% next year, hitting 377,080. In 2006, **net migration to Victoria is forecast to rise** in concert with B.C. trends, improving to 2,800 from 2,500 in 2005.

Victoria employment growth of 3.6% is forecast for 2006, followed by a further 2.9% in 2007. Employment growth is strongest in **construction, retail trade, health care, finance, insurance** and **real estate,** while slower growth will occur in **manufacturing,** as well as **defense and primary industries**. No change is expected in **public administration.**

Metro Victoria's **unemployment rate** should remain below 5% over the next 18 months. Last year, unemployment posted its best performance in over two decades, with a rate of 4.5%. BC unemployment will track close to 5.6% in 2006-07.

At year end 2005, the **value of major capital projects** proposed, planned or under construction in Metro Victoria totalled **$4.7 billion**, up from $2.5 billion last spring. Major projects **scheduled to get underway in** 2006-07 include **Dockside Green and the CN Lands (Bayview) project.**

Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, Selkirk Waterway, Bear Mountain Golf Resort, Silver Spray, the Railyards, CFB Esquimalt Improvements, Sun River Estates, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project**.

Growth in **construction, tourism, education, high technology** and **film production** will boost economic expansion through 2007. Victoria hosts BC's second largest technology market after Vancouver.

Tourism is expected to improve slightly through 2007: a 3% increase is forecast by Tourism Victoria for 2006. A **23% increase in cruise ship passenger traffic** is expected this year, with 184 ships carrying 330,000 passengers scheduled to arrive at Ogden Point. Early 2006 ferry and airport traffic statistics show **increases from last year's strong performance**.

Tourism Victoria reported **record hotel revenues** last year, improving on the previous high of 2004. As well, float plane operators set a record in 2005, with traffic up 11% from 2004. Looking forward to 2007, **tourism growth is expected to slow** somewhat as stricter border traffic requirements come into effect for U.S. visitors. ❖

Mortgage rates edging up

While still low by historical standards, mortgage rates will edge up 0.50-0.75 per cent in 2006 and a further 0.25-0.50 per cent next year.

One, three, and five year closed mortgage rates are forecast within the following respective ranges: 5.75-6.75, 6.00-6.75 and 6.25-7.25 per cent.

Mortgage rate discounts will remain available as an important competitive instrument over the forecast horizon. ❖

Ownership Costs Rising

Mortgage rates will edge up and home prices will rise, meaning higher **qualifying income** is needed to purchase a home. In 2007, qualifying income required for purchase of an average-priced house **will hit a new high** of $140,435 from $130,100 in 2006.

Metro Victoria homebuying qualifying income calculations are based on actual interest rates, MLS® average house prices to 2005 and CMHC forecasts for 2006-07 (see page 8 for details). ❖

2005 Canadian Housing Observer Available Now on CMHC's website

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RENOVATION MARKET

RENOVATIONS CLIMBING

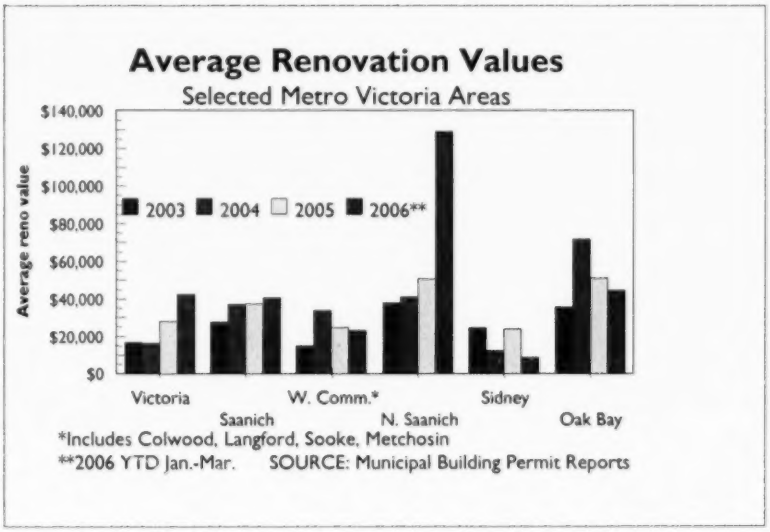
Metro Victoria renovations will continue to gain strength both in dollar value and number of renovations undertaken, over the next two years.

Two main factors are behind the strength in renovations: strong activity in 2002-05 resale markets, and the current mainstream popularity of homeowner renovations. Many buyers choose homes based on location, frequently choosing to **purchase and make improvements** to existing housing instead of buying new homes. High **development and lot costs** and an **aging housing stock** are pushing this decade's renovations well ahead of levels achieved in the 1990s.

During 2005, the **number of building permits issued for residential renovations** in **Metro Victoria grew 32% from** 2004 levels. Strongest permit volume growth was in the **Western Communities** markets during both 2005 (up 40%) and first quarter 2006. This year, renovation hot spots are in **Saanich, North Saanich, Oak Bay, Langford, Colwood and View Royal**, each with permit tally increases topping 20%.

First quarter 2006 Metro Victoria average renovation values **jumped 30% from** 2005 levels. **North Saanich** led area markets, with average residential renovation permit values of $128,900. **Oak Bay** had the next highest values, averaging $44,500. Average permit values in **other area markets ranged from $8,500 through $42,150.**

Higher costs for materials and labour, as well as a trend to larger projects, is reflected in rising renovation spending. **Exterior projects** such as decks and additions are most popular with area homeowners, followed by **secondary suites, home offices**, and **media rooms**, as well as more traditional **kitchen and bathroom renos.** ❖



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CMHC FORECAST SUMMARY

Victoria Metropolitan Area

April 2006

RESALE MARKET	2004	2005	2006F	2007F	Chg
MLS® Listings	10,329	10,407	11,600	11,200	-3.4%
MLS® Sales					
Single-family	4,285	4,214	4,200	4,220	0.5%
Townhouse	714	801	705	725	2.8%
Condo Apartment	2,018	2,279	2,150	1,990	-7.4%
TOTAL	*7,017*	*7,294*	*7,055*	*6,935*	*-1.7%*
MLS® Price					
Single-family	$386,045	$463,399	$509,000	$530,000	4.1%
Townhouse	$299,275	$345,095	$365,000	$382,000	4.7%
Condo Apartment	$216,661	$251,655	$275,000	$290,000	5.5%
NEW HOME MARKET					
Starts					
Total	2,363	2,058	2,220	2,185	-1.6%
Single-family	1038	974	1020	995	-2.5%
Semi	141	94	110	100	-9.1%
Townhouse	122	111	125	135	8.0%
Condo Apartment	1058	856	925	905	-2.2%
Rental	4	23	40	50	25.0%
Complete & unoccupied (monthly average)					
Total	96	112	107	120	12.1%
Single-family & Semi	59	63	68	75	10.3%
Townhouse	15	18	14	15	7.1%
Condo Apartment	22	31	25	30	20.0%
Median New Home Price					
Single-family	$399,000	$478,950	$529,000	$545,000	3.0%
3 Bed. Townhouse	$334,900	$344,900	$359,000	$368,000	2.5%
2 Bed. Condo Apt	$284,900	$339,900	$325,000	$336,000	3.4%
RENTAL MARKET					
Vacancy Rate (Oct.)	0.6%	0.5%	0.8%	1.2%	
% Increase in apartment rents	1.7%	4.5%	3.9%	3.7%	
ECONOMIC OVERVIEW					
Mortgage Rate (3 yr.)	5.65%	5.59%	6.43%	6.56%	
Employment Growth	2.5%	4.4%	3.6%	2.9%	
Net Migration	2,200	2,500	2,800	2,675	

F = CMHC Forecast

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